

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-13 ISO-00 AID-05 CIAE-00 COME-00

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P R 031739Z SEP 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 1585

INFO AMEMBASSY LONDON

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DEPARTMENT PASS TREASURY, FRB AND CEA

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EFIN: 11652: N/A

TAGS: EFIN, ECON, GW
SUBJECT: PRE-ELECTION ECONOMIC INDICATORS NOT ALL
THAT GOOD -- BUT DOES IT MATTER?

REF: BONN 14764

SUMMARY: THE ECONOMIC INDICATORS ARE NOT ALL THAT INSPIRING. WITH THE ELECTIONS JUST AROUND THE CORNER, THE SIGNS OF A SLOWDOWN ARE BECOMING MORE GENERALIZED, ALTHOUGH IT PROBABLY WILL NOT MAKE THAT MUCH DIFFERENCE TO THE MAN IN THE STREET EITHER BECAUSE HE DOESN'T KNOW ABOUT THEM, OR IF HE DOES, HE DOESN'T UNDERSTAND THE IMPLICATIONS. UNEMPLOYMENT REMAINS UNIMPROVED, AND CONTINUES TO HOVER AROUND ONE MILLION. INDUSTRIAL PRODUCTION IS SLUGGISH OF LATE, CURRENTLY GROWING AT ONLY A 2.7 PERCENT ANNUAL RATE. FOREIGN DEMAND LOOKS QUITE STRONG, BUT ONE LARGE ORDER MAY HAVE UNREALISTICALLY SWOLLEN THE ORDERS INDEX. DOMESTIC NEW ORDERS VOLUME IS IN CLEAR DECLINE, PARTICULARLY IN THE CAPITAL GOODS AREA, REFLECTING LAGGING INVESTMENT PROPENSITIES. END SUMMARY

1. THE LAST MAJOR ECONOMIC INDICATORS TO BECOME AVAILABLE BEFORE THE OCTOBER 3 NATIONAL ELECTION ARE OUT AND, ON BALANCE, THEY ARE NOT PARTICULARLY ENCOURAGING (ALTHOUGH IT MAY NOT MAKE THAT MUCH POLITICAL DIFFERENCE IN ANY CASE BECAUSE THE INFORMATION IS NOT GENERALLY KNOWN AND WHEN IT IS, THE IMPLICATIONS FOR THE AVERAGE VOTER ARE NOT FULLY APPRECIATED. THE NUMBER OF UNEMPLOYED, IN SEASONALLY ADJUSTED TERMS ROSE SLIGHTLY IN AUGUST TO 1,056,000. THE SEASONALLY ADJUSTED UNEMPLOYMENT RATE STILL STANDS AT THE 4.6 PERCENT FIGURE AT WHICH IT HAS STAGNATED FOR THE LAST FOUR MONTHS; IN FACT, SINCE JANUARY'S 4.7 PERCENT RATE THERE HAS BEEN LITTLE IMPROVEMENT AT ALL THAT MIGHT BE ATTRIBUTED TO CYCLICAL DEVELOPMENTS. THE AVERAGE RATE FOR THE FIRST EIGHT MONTHS OF THIS YEAR, 4.7 PERCENT, IS THE SAME AS THAT FOR ALL OF LAST YEAR (SEE TABLE II). IN THE MORE COMMONLY USED NON-ADJUSTED SERIES, UNEMPLOYMENT DROPPED LIMITED OFFICIAL USE

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ONLY 5,000 IN AUGUST TO 940,000. THIS IS A DISAPPOINTMENT TO FRG OFFICIALS WHO HAD EARLIER FORECAST AROUND 800,000 UNEMPLOYED FOR THIS MONTH. NO IMPROVEMENT IS EXPECTED IN SEPTEMBER, WHICH DATA, IN ANY CASE, PROBABLY WON'T BECOME PUBLIC UNTIL THE DAY AFTER THE ELECTION. SEASONAL INFLUENCES WILL CERTAINLY START PUSHING THE NUMBER UPWARDS THEREAFTER, A FACT ALREADY

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FM AMEMBASSY BONN

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INFO AMEMBASSY LONDON

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PUBLICLY ALLUDED TO BY FEDERAL EMPLOYMENT OFFICE CHIEF STINGL.

2. ANOTHER KEY INDICATOR, THE INDUSTRIAL PRODUCTION INDEX, DROPPED TWO POINTS IN JULY (SEE TABLE I). LOOKING AT THE MORE MEANINGFUL COMPARISON OF THE INDEX FOR JUNE AND JULY VIS-A-VIS THE PRECEDING TWO MONTHS, THE ANNUAL RATE OF GROWTH IN THIS SEASONALLY ADJUSTED SERIES IS ONLY 2.7 PERCENT; COMPARING THE LAST THREE MONTHS OVER THE PREVIOUS THREE MONTHS YIELDS 4.8 PERCENT (S.A.A.R.). THERE IS UNDOUBTEDLY A TREND TOWARD DECELERATION IN WHAT WAS NOT AN OVERLY RAPID RATE IN THE FIRST PLACE. OUR GOVERNMENT CONTACTS TELL US THAT THE JULY FIGURE COULD HAVE BEEN AFFECTED BY A REVISED STAGGERING OF SCHOOL VACATIONS, THE FULL EFFECT OF WHICH WAS NOT IRONED OUT BY THE ADJUSTMENT PROGRAM. HOWEVER, THEY ARE NOT SURE, AND IN THEIR CONCERN ARE SCRAPING AROUND FOR POSSIBLE NON-CYCLICAL EXPLANATIONS FOR THE SLOWDOWN. THEY TOLD US THAT PARTICULARLY DISTURBING AS AN INDICATOR OF INVESTMENT PROPENSITIES IS THE PRODUCTION INDEX FOR CAPITAL GOODS, WHICH DROPPED TO 103 IN JULY FROM 109 IN JUNE; IT WAS 108 IN BOTH APRIL AND MAY.

3. NEW INDUSTRIAL ORDERS VOLUME IN JULY TOOK A BIG JUMP, AND AT FIRST GLANCE COULD BE INTERPRETED VERY FAVORABLY -- IN THE OVERALL IT IS UP 50 PERCENT (S.A.A.R., JUNE-JULY OVER APRIL-MAY). HOWEVER, OUR MINISTRY FRIENDS WERE QUICK TO POINT OUT THAT IT WAS ALL THE RESULT OF A STATISTICAL QUIRK. ONE VERY LARGE ORDER FROM A PETROLEUM PRODUCING COUNTRY DISTORTED THE FOREIGN ORDER INDEX, CAUSING IT TO JUMP FROM 147 IN JUNE TO 222 IN JULY. WERE THIS ABERRANT ELEMENT REMOVED, WE ARE TOLD, THE JULY INDEX NUMBER WOULD HAVE BEEN ABOUT THE SAME AS IN JUNE. THE DOMESTIC NEW ORDER INDEX IS, OF COURSE, FREE FROM THIS MISLEADING FACTOR AND SHOWS VERY CLEARLY A WEAK AND DECLINING DEMAND ON THE HOME FRONT. COMPARING JUNE AND JULY WITH THE PRECEDING TWO MONTHS, THE VOLUME OF ORDERS DROPPED 18 PERCENT; THE THREE MONTH COMPARISON SHOWS PRACTICALLY THE SAME RESULT. ONE OF THE WEAKEST ELEMENTS ON THE DOMESTIC DEMAND SCENE IS FOR CAPITAL GOODS, WHICH ARE DOWN 31 PERCENT (S.A.A.R.)

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ON A TWO-MONTH COMPARISON BASIS. SINCE THE DEADLINE FOR THE PLACEMENT OF ORDERS UNDER THE GOVERNMENT'S INVESTMENT BONUS SCHEME OCCURRED OVER A YEAR AGO, THIS WOULD NOT BE A FACTOR IN THE LAGGING INVESTMENT PROPENSITY PORTRAYED BY THESE DATA. IT MIGHT BE ATTRIBUTABLE TO MORE FUNDAMENTAL FACTORS, E.G., AMPLE EXISTING CAPACITY AND WEAK DEMAND PERSPECTIVES.

4. PERTINENT TABLES DETAILING THE ABOVE FOLLOW:

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TABLE I

SEASONALLY-ADJUSTED INDICES OF INDUSTRIAL PRODUCTION
AND NEW ORDERS (1970 EQUALS 100)

	INDUSTRIAL PRODUCTION	NEW ORDERS VOLUME TOTAL DOMESTIC FOREIGN		
	-----	-----	-----	-----
1976				
JAN	108	109	100	137
FEB	110	108	100	132
MAR	109	111	106	127
APR	112	109	101	133
MAY	111	108	100	133
JUNE	113	110	98	147
JULY	111	125 1/	97	222 1/

ANNUAL RATES OF CHANGE (PERCENTAGE)

JUN-JULY OVER

APR-MAY 2.7 49.8 1/ -17.9 232.3 1/

MAY-JUNE OVER

FEB-APR 4.8 18.3 1/ -15.6 112.2 1/

1/ POSSIBLY DISTORTED DUE TO ONE (OR MORE) EXCEPTIONALLY
LARGE AND NON-REPRESENTATIVE ORDER(S) FROM ABROAD.

TABLE II

SEASONALLY-ADJUSTED REGISTERED UNEMPLOYMENT

NUMBER UNEMPLOYED (THOUSANDS)	UNEMPLOYMENT RATE
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1976

JAN	1083	4.7
FEB	1090	4.8
MAR	1078	4.7

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APR	1068	4.7
MAY	1050	4.6
JUNE	1051	4.6
JULY	1054	4.6
AUG	1056	4.6

AVERAGE

JAN-AUG 1976	1066	4.7
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FULL YEAR 1975	1074	4.7
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Message Attributes

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Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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